COLONY ENERGY LTD.

1996 ANNUAL REPORT

CORPORATE PROFILE

Colony Energy Ltd. is a junior Canadian resource company focused on oil and gas development, acquisition and exploration in the Western Canadian Provinces. The new management team brings to Colony a history of achievement and a wealth of diverse management and technical experience.

The Company is committed to building a balanced exploration and development program augmented by timely, significant acquisitions which will increase shareholder value through asset growth and long term profitability. These goals will be attained through innovation, maximization of corporate strengths and focusing on those opportunities which are achievable.

Colony's shares are listed on the Alberta Stock Exchange under the symbol "CYG".

NOTICE OF ANNUAL MEETING

The Annual and Special Meeting of Shareholders will be held on Tuesday, October 1, 1996 at 3:00 PM local time at the offices of MacKimmie Matthews, #700, 401 - 9th Avenue S.W. Calgary, Alberta. Shareholders are encouraged to attend and those unable to do so are asked to sign and return the proxy form mailed with this report

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HIGHLIGHTS

FINANCIAL ($ Thousands except per share)	Apr30/96	Apr30/95	Change
Gross Revenue	1,137	1,671	-32%
Cash Flow from Operations	(362)	316	-215%
Debt	1,025	688	49%
Capital Expenditures	198	619	-68%
Outstanding Shares	3,148	3,148	0%
PRODUCTION			
Oil and NGLS, MBBLS	10.9	12.5	-13%
, BBLS/D	30	34	-12%
Natural Gas, MMCF	773.3	881.8	-12%
, MCF/D	2,120	2,420	-12%
Barrels of Oil Equivalent, MBOE	88.2	100.7	-12%
, BOE/D	242	276	-12%
Production Expenses $/BOE	6.74	6.59	2%
(Note: 10 MCF = 1 BBL Oil Equivalent)			
RESERVES			
Oil and NGLS, MBBLS			
Proven	95.0	63.2	50%
Probable	66.0	74.5	-11%
Total	161.0	137.7	17%
Natural Gas, MMCF			
Proven	7,053	6,576	7%
Probable	925	3,430	-73%
Total	7,978	10,006	-20%
UNDEVELOPED LAND			
Gross Acres	17,280	N/A	
Net Acres	10,623	4,070	161%

MESSAGE TO OUR SHAREHOLDERS

Year in Review

1996 was a difficult year for Colony Energy Ltd. This was a year of consolidation and positioning . Natural Gas prices dropped significantly in 1996 following two years at relatively high levels. For Colony and most of our industry peers, gas prices were considerably below expectations. Colony's gas price averaged $1.15/mcf in 1996 compared to $1.59/mcf in 1995. The impact on Colony was a severe reduction in cash flow and the curtailment of the 1996 capital spending program . This necessitated the issuance of a $1,025,000 debenture to replace bank credit. The cash flow constraints, coupled with the inability to raise equity capital, severely restricted the growth potential of Colony. Management recognized that higher gas prices were not expected in the near term and the deterioration of cash flow would continue. In March 1996, Management saw the need to stop the erosion of Shareholder value and position the Company to grow. This was accomplished in June 1996 with the appointment of a new management team and the infusion of $1,500,000 in new equity.

A New Management Team

The new management team brings to Colony a history of achievement and a wealth of diverse management and technical experience in geology, engineering, land and finance. This experience when combined with enthusiasm and a commitment to growth makes for a team capable of delivering exceptional results. Results above expectations will be the primary focus of management.

The Future of Colony

Management is very optimistic about the future of Colony. Existing properties will provide a good starting point for the Company. These properties, in which we have a high working interest, are all essentially gas properties and are operated by Colony. Each property has been evaluated for its exploitation and expansion value. Operational results to date on these properties have been encouraging with one well tied in and one well successfully drilled resulting in an immediate cash flow increase. Three other locations have been identified for immediate drilling

MESSAGE TO SHAREHOLDERS continued...

as well as one additional tie-in. One of our properties has been identified as having limited potential and will be divested in due course. Each of these projects will enhance shareholder value in the short term, however, to secure the growth potential which management is targeting we must look beyond Colony's existing property base.

The future of Colony lies in the commitment of management to building a balanced proprietary exploration and development program, augmented by timely and significant acquisitions which will increase shareholder value through asset growth and long term profitability.

In developing our strategy, management has been very mindful of pursuing only those opportunities where our technical experience gives us the competitive advantage to profitably exploit opportunities. Colony will pursue only prospects with economical access to land, available high working interests and access to underutilized pipeline infrastructure. This strategy ensures control of our prospects and provides maximum reward for our efforts.

In following this strategy we have developed and acquired acreage on 5 separate proprietary geological prospects. Due to the low risk nature of each of these prospects, drilling will be delayed until a larger land position has been acquired.

In the short term, Colony's internally generated play trends will provide consistent growth. To augment this program it is the intention of management to continuously seek larger acquisitions which could provide accelerated growth to Colony. The timing of such a transaction is completely opportunity driven .

The management of Colony is focused and aggressively pursuing those opportunities which satisfy our vision of sustainable increases in shareholder value through asset growth and long term profitability. With the support and guidance of our Board of Directors and the interest and support of our existing and new shareholders, Colony is positioned to provide significant growth in 1997.

For and on behalf of the Board of Directors,

L Evans

Larry Evans

President and Chief Executive Officer

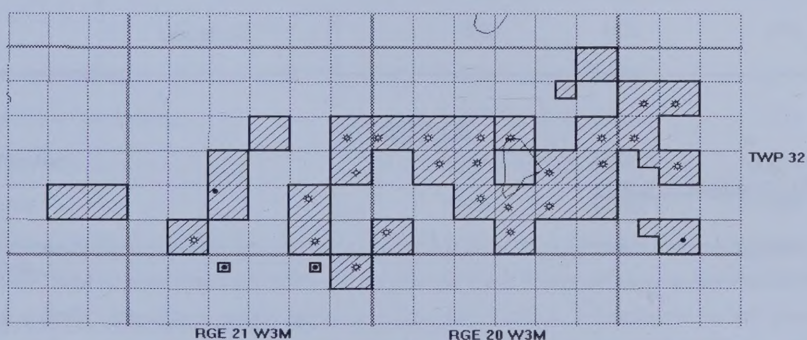
OPERATIONS REVIEW

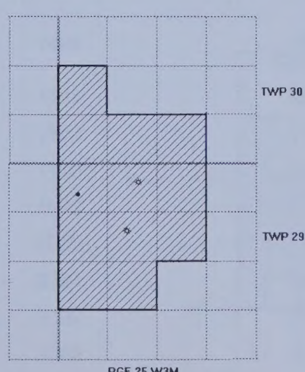
Colony Energy obtains revenue primarily from 3 properties in Saskatchewan and 1 property in Alberta. These operations are all company operated and have high working interests. During 1996 and 1997 Colony intends to focus on optimizing the depletion of these assets. This will be performed through tie-in of capped gas wells, infill drilling, workovers of existing producers and modifications to infrastructure.

SASKATCHEWAN

DODSLAND (Operated, 50% W.I.)

The Dodsland property was Colony's largest producing property during 1996. Colony Energy has an average 50% W.I. in 25 prducing wells, gas gathering system and gas plant. This operated property is predominantly Viking gas production that is characterized by low deliverability, long life reserves. The current production rate from Dodsland is 1.8 MMCF/D of natural gas and 22 BBLS/D of oil and natural gas liquids. During 1996 Colony Energy was succesful in acquiring, reworking and tie-in one additional gas producer.
An evaluation is currently being performed to determine the optimum strategy for depletion of the reserves.





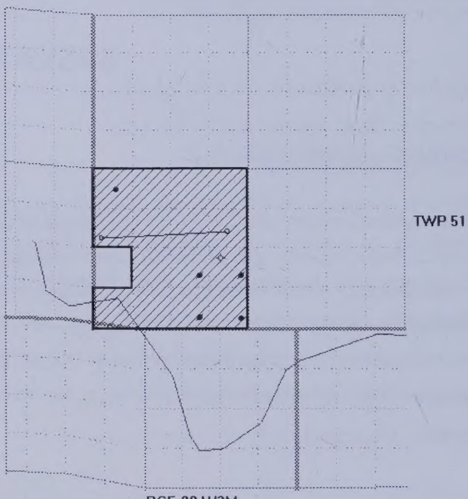
WHITESIDE (Operated, 80% W.I)

The Company owns an 80% W.I. in the Whiteside Victoria Sand Gas Unit. This Colony operated property consists of 2 producing gas wells, 1 producing oil well, gathering system and compressor station. Production from Whiteside is approximately 460MCF/D and 2 BOPD. Future development plans include the drilling and tie-in of an additional Victoria sand gas producer.

SASKATCHEWAN,continued

NORTHMINSTER (Operated, 75% W.I.)

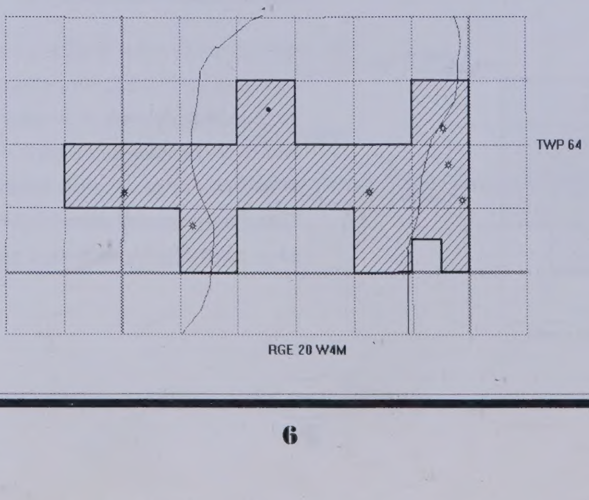
Northminster is a Colony operated property having 75% W.I. in 2 oil wells, 2 capped gas wells, and 2 S.I. oil wells. Production has primarily been from the heavy oil bearing (14°API) Sparky formation. Development drilling during 1996 resulted in one gas well and one dry hole. Production from this field is currently 37 BOPD. Future plans for this property include the tie-in of the two capped gas wells and potential drilling for Sparky oil production.



ALBERTA

COLINTON, (Operated, 27% W.I.)

Colony Energy operates 5 producing gas wells, 1 capped gas well, a gas gathering system and compressor station in the Colinton area of Alberta. Current production rates from this project are 1.1 MMCF/D of natural gas. Colony has an average W.I. of 27% in the wells and infrastructure. A gas well, drilled in August by Colony Energy, will be tied-in September 1996. Production from this well is expected to commence at 1.0 MMCF/D.



RESERVES REVIEW

Colony had its properties evaluated by Martin Petroleum and Associates effective May 1, 1996. The following is a summary of the reserve appraisal report:

RESERVE VOLUME

Category	Oil and NLGS (MMBLS)	Natural Gas (MMCF)	Oil Equivalent (MBOE)
Proven Producing	89.2	5447	634
Proven Non Producing	5.8	1606	166
Total Proven	95.0	7053	800
Probable	66.0	925	159
Total Proven and Probable	161.0	7978	959

RESERVE VALUE: -The following table summarizes the pretax value of the Company's proven and probable reserves effective May 1, 1996:

(000's)	Discount Rate		
	0%	10%	15%
Proven Producing	6,436	3,248	2,577
Proven Non-Producing	1,930	1,051	825
Total Proven	**8,366**	**4,299**	**3,401**
Probable	1,817	1,068	868
Total Proven & Probable	**10,182**	**5,367**	**4,269**

The value of reserves were based on the following price summary:

	Crude Oil		Gas
Year	WTI $US/BBL	Edmonton $CDN/BBL	Wellhead $/MMBTU
1996	18.50	24.00	1.40
1997	19.25	25.00	1.55
1998	20.00	26.00	1.75
1999	20.75	27.00	1.95
2000	21.50	28.00	2.15
2001	22.25	29.00	2.30
2002	23.00	30.00	2.45
2003	23.75	31.00	2.55
2004	24.5	32.00	2.70
2005	25.25	33.00	2.85
Thereafter	+3.5%	+3.5%	+3.5%

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVENUE

The Company's gross revenues decreased 32% in 1996 to $1,137,000. In 1995 gross revenues were $1,671,000. The primary reason for the decline was a 28% decrease in Natural Gas price and a 12% decrease in gas production.

PRODUCTION

The Company produced 88.2 MBOE in 1996 which is a 12% decline from the 100.7 MBOE produced in 1995. Average daily gas production was 2.12 MMCFD which accounts for 88% of the Company's operating production on an equivalent basis. The lower production is a result of a property divestiture during 1995 and natural field decline. Colony operates essentially 100% of its production.

OPERATING EXPENSES

The Company was able to lower operating costs by 10% from $664,000 in 1995 to $595,000 in 1996. However, on a BOE basis, costs increased slightly to $6.74/BOE from the $6.59/BOE which was experienced in 1995. The Company believes operating costs on a unit basis will be reduced with additional development and the divestiture of low margin properties.

CASH FLOW AND NET EARNINGS

Colony's cash flow from operations, being cash flow from operations before net changes in non-cash operating working capital for 1996 was a negative $362,000 compared to a positive cash flow of $316,000 in 1995. Cash flow for 1996 however, included a one time reorganization expense of $385,000. Excluding the reorganization costs, cash flow would have been a positive $23,000. This reduction in cash flow is a reflection of the lower commodity prices and production decreases which were previously discussed. The company had a loss of $1,479,000 in 1996 compared to a loss of $5,690,000 in 1995. The loss in both years resulted primarily from a ceiling test write-down of capital assets.

CHANGES IN FINANCIAL POSITION

The Company had cash of $317,000 at the end of 1996 compared to bank indebtedness of $688,000 at the beginning of the year. The positive change was the result of the issuance of a $1,025,000 debenture and proceeds of $300,000 from the sale of the Company's mining property. The proceeds from the debenture were utilized to eliminate all bank debt. Subsequent to April 30, 1996, as part of the overall corporate reorganization, the Company completed a private placement of $1,000,000 for common shares and issued a $500,000 convertible debenture. Proceeds of the private placement were used to redeem the $1,025,000 debentures, satisfy the termination of certain employment arrangements, and for general corporate purposes.

PRODUCT PRICES

Natural Gas prices declined 28% in 1996 to $1.15/MCF which compares to the $1.59/MCF received in 1995. Oil and NGLs prices changed marginally and averaged $16.86/BBL and $14.63/BBL respectively. Approximately 75% of the Company's gas production is marketed under short term contracts with prices indexed to Alberta spot market prices. Over time the Company plans to diversify its marketing arrangements to include some longer term contracts.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased to $634,000 in 1996 compared to $288,000 in 1995. This significant increase was due to the one time cost of reorganization. Going forward, the Company intends to employ sufficient personnel and technologies to encourage growth. Over the short term, costs will be high on a BOE basis, however longer term growth targets can best be achieved with the appropriate people and current technology in place. The Company does not capitalize any general and administrative expenses.

DEPRECIATION AND DEPLETION

Depreciation and depletion expenses in 1996 were $266,000 compared to $793,000 in 1995. The Company recorded a ceiling test write-down of $885,000 this year. In 1995 the Company took a similar write-down of $5,198,000.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATMENTS

The accompanying financial statements of Colony Energy Ltd. have been prepared by management in accordance with generally accepted and consistently applied accounting principles.

Colony's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

In recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this annual report is consistent with the information presented in the financial statements.

KPMG have been appointed by the shareholders of Colony and serve as the Company's external auditors. They have examined the financial statements of the Company in accordance with generally accepted auditing standards and provide an independent professional opinion.

The Audit Committee has reviewed these statements with management and KPMG, and has recomended approval to the Board of Directors. The Board has approved the financial statements of Colony which are contained in this report.

L. Evans

Larry Evans
President

John Leteta

John Leteta
Controller

August 7, 1996
Calgary, Alberta

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Colony Energy Ltd. (formerly Sevex Energy Inc.) as at April 30, 1996 and 1995 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada
August 7, 1996

COLONY ENERGY LTD.

(Formerly Sevex Energy Inc.)
Consolidated Balance Sheets

April 30, 1996 and 1995

	1996	1995
Assets		
Current assets:		
Cash	$ 316,797	$ –
Accounts receivable	470,791	137,946
Prepaid expenses	52,548	49,380
	840,136	187,326
Capital assets (note 2)	1,174,147	2,377,234
	$ 2,014,283	$ 2,564,560
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 693,156	$ 116,877
Bank indebtedness	–	687,952
	693,156	804,829
Long-term debt (note 3)	1,025,000	–
Provision for site restoration and abandonment	50,000	35,000
Shareholders' Equity:		
Share capital (note 4)	12,836,458	12,836,458
Deficit	(12,590,331)	(11,111,727)
	246,127	1,724,731
Subsequent events (note 7)		
	$ 2,014,283	$ 2,564,560

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

COLONY ENERGY LTD.

(Formerly Sevex Energy Inc.)
Consolidated Statements of Operations and Deficit

Years ended April 30, 1996 and 1995

	1996	1995
Natural gas and petroleum operations:		
Gas sales	$ 886,325	$ 1,401,246
Oil and by-products	177,150	218,324
Processing and other	73,457	51,612
Royalties	(162,405)	(271,247)
	974,527	1,399,935
Expenses:		
Operating costs	595,223	663,933
Depreciation and depletion	266,208	792,913
Future site restoration and abandonment	15,000	15,000
General and administrative	634,925	288,139
Interest on long-term debt	64,063	70,000
Other interest and banking charges	42,713	61,598
Write-down of capital assets	885,000	5,198,174
	2,503,132	7,089,757
Gain on sale of mining assets	50,001	–
Loss for the year	1,478,604	5,689,822
Deficit, beginning of year	11,111,727	5,421,905
Deficit, end of year	$ 12,590,331	$ 11,111,727
Loss per share (note 4(b))	$ 0.47	$ 1.80

See accompanying notes to consolidated financial statements.

COLONY ENERGY LTD.

(Formerly Sevex Energy Inc.)
Consolidated Statements of Changes in Financial Position

Years ended April 30, 1996 and 1995

	1996	1995
Cash provided by (used in):		
Operations:		
Loss for the year	$ (1,478,604)	$ (5,689,822)
Items not affecting working capital:		
Depreciation and depletion	266,208	792,913
Future site restoration and abandonment	15,000	15,000
Write-down of capital assets	885,000	5,198,174
Gain on sale of mining assets	(50,001)	–
Net changes in non–cash operating working capital	240,267	15,098
	(122,130)	331,363
Financing:		
Increase (decrease) in long-term debt	1,025,000	(1,432,198)
Issue of shares	–	84,629
	1,025,000	(1,347,569)
Investments:		
Purchase of capital assets	(198,121)	(618,896)
Proceeds on disposal of capital assets	300,000	1,725,978
	101,879	1,107,082
Increase in cash position	1,004,749	90,876
Bank indebtedness, beginning of year	(687,952)	(778,828)
Cash (bank indebtedness), end of year	$ 316,797	$ (687,952)

See accompanying notes to consolidated financial statements.

COLONY ENERGY LTD.

(Formerly Sevex Energy Inc.)
Notes to Consolidated Financial Statements

Years ended April 30, 1996 and 1995

General:

During 1996, Sevex Energy Inc. changed its name to Colony Energy Ltd. (the "Company"). The Company was incorporated under the laws of British Columbia and was continued in Alberta under the Business Corporations Act (Alberta) and carries on exploration and development of natural gas and petroleum properties.

1. **Significant accounting policies:**

(a) Natural gas and petroleum properties:

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include land acquisition, geological and geophysical, carrying charges on non-producing properties, and drilling both productive and non-productive wells.

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are depleted using the unit-of-production method based upon estimated proved reserves as calculated by independent reservoir engineers. Reserves are converted to equivalent units on the basis of approximate relative energy content.

Costs of acquiring and evaluating unproven properties are initially excluded from the depletion calculation. These properties are periodically assessed to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

In applying the full cost method, the total capitalized costs less accumulated depletion, depreciation, deferred income taxes and provision for future site restoration costs are limited to an amount equal to the estimated future net revenue from proven reserves plus the cost (net of impairments) of unproven properties less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would alter the rate of depletion and depreciation by 20% or more.

Site restoration and abandonment costs are provided for on a unit-of-production basis. Actual costs are charged against the accumulated provision when incurred.

(b) Equipment:

Equipment is recorded at cost. Depreciation is provided over the equipment's estimated useful life on the declining-balance basis at rates of 10% - 30% per annum.

COLONY ENERGY LTD.

(Formerly Sevex Energy Inc.)
Notes to Consolidated Financial Statements, page 2

Years ended April 30, 1996 and 1995

2. Capital assets:

		1996		1995
	Cost	Accumulated depletion and depreciation	Net book value	Net book value
Natural gas and petroleum properties	$ 7,251,800	$ 6,107,981	$ 1,143,819	$ 2,100,000
Mineral property	1	–	1	250,000
Equipment	49,212	18,885	30,327	27,234
	$ 7,301,013	$ 6,126,866	$ 1,174,147	$ 2,377,234

In 1996, the Company recorded a write-down of $885,000. The year-end prices which were used in the ceiling test determination were 1.16/mcf and $21.90/bbl. In 1995, as a result of the application of the ceiling test using average prices in effect for the year ended April 30, 1995, ($1.59 /mcf) capital assets were written down by $3,854,028. Had the year-end price of 1.03/mcf been used, in the ceiling test determination, a further provision of $2,100,000, would have been required.

The ceiling test is a cost recovery test and is not intended to result in an estimate of the fair market value of the natural gas and petroleum properties.

3. Long-term debt:

The debentures bear interest at the rate of 15% per annum payable semi-annually and are secured by the assets of the Company. Directors, their families, and companies controlled by directors were issued a total of $610,000 of the debentures. During the year, interest of $38,124 was paid on the debentures to directors, their families, and companies controlled by directors. Subsequent to April 30, 1996, all the debentures were redeemed for cash (note 7).

4. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued:

At the Annual General Meeting in October 1995, a resolution was passed whereby the Company's common shares were consolidated on and 8 for 1 basis. The priors year's per share information has been restated to reflect the share consolidation.

	Shares	Amount
Balance, April 30, 1994	3,135,445	$ 12,751,829
Issued on settlement of accounts payable	24,043	84,629
Balance April 30, 1995 and 1996	3,159,488	$ 12,836,458

(c) Options:

At April 30, 1996, the Company had reserved 257,438 common shares for issuance pursuant to the exercise of 257,438 common share purchase options outstanding at exercise prices varying from $0.34 to $2.80 per share expiring at varying times from November 1996 to February 2001.

Subsequent to year end, 180,000 common share purchase options were converted into common shares at $0.34 per share.

5. Income taxes:

The provision for income and other taxes in the consolidated statements of operations and deficit reflects an effective rate which differs from the expected combined federal and provincial income tax rate. These differences are accounted for as follows:

	1996	1995
Expected combined federal and provincial taxes of 45%	$ (492,122)	$ (2,560,420)
Increase (decrease) in taxes resulting from:		
Crown royalties	37,220	105,096
Alberta Royalty Tax Credit	(3,156)	(7,486)
Resource allowance	(22,136)	(78,665)
Write-down of subsidiary	–	83,714
Losses, the benefit of which have not been recognized	480,194	2,457,761
	$ –	$ –

5. Income taxes (continued):

The Company has available resource related deductions and net capital losses which may be carried forward indefinitely and used in the prescribed manner to reduce taxable income in future years. At April 30, 1996, resource related deductions were approximately $10,600,000. Net capital losses carried forward were approximately $600,000. No future tax benefit has been recognized in the accounts in respect of these items.

The Company has non-capital loss carry forwards for tax purposes which are available to reduce taxable income and expire as follows:

1998	$ 200,000
2000	170,000
2001	230,000
	$ 600,000

6. Related party transactions:

During 1996, $170,000 (1995 - $187,500) was paid as consulting fees to directors of the Company.

7. Subsequent events:

Subsequent to April 30, 1996, as part of an overall corporate reorganization, the Company completed a private placement of 4,000,000 common shares at a price of $0.25 per common share for proceeds of $1,000,000 and issued a $500,000 convertible debenture, convertible at the option of the holder, at a conversion price of $0.25 per common share. The Company granted options to certain officers and directors to purchase 380,000 common shares at $0.37 per common share, expiring in June 2001.

Proceeds of the private placement were used to redeem $1,025,000 of debentures (note 3), satisfy the termination of certain employment arrangements and for general corporate purposes.

After giving effect to the subsequent issue of 4,000,000 common shares, the 1996 pro forma loss per common share would not change materially.

NOTES

ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit
NGLS	Natural Gas Liquids
BBLS	Barrels
BBLS/D	Barrels Per Day
MBBLS	Thousand Barrels
MCF	Thousand Cubic Feet
MCF/D	Thousand Cubic Feet Per Day
MMCF	Million Cubic Feet
MMCF/D	Million Cubic Feet Per Day
BCF	Billion Cubic Feet
BOE	Barrels of Oil Equivalent
BOE/D	Barrels of Oil Eqivalent Per Day
MBOE	Thousand Barrels of Oil Equivalent
LPG	Liquified Petroleum Gas

10 MCF of Natural Gas = 1 BBL of Oil Equivalent

1 BBL of NGLS = 1. BBL of Oil Equivalent

CORPORATE INFORMATION
COLONY ENERGY LTD.

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DIRECTORS

GORDON W. CAMERON, *Chairman of the Board*
Chief Executive Officer, Scotcam Enterprises Inc.
Calgary, Alberta

LARRY A. SHAW
President, Shaw GMC *Pontiac* Buick Ltd.
Calgary, Alberta

KEN BRADLEY
Independent Businessman
Calgary, Alberta

GRANT BROWN
President, Dawn Resources Ltd.
Calgary, Alberta

LARRY G. EVANS
President and Chief Executive Officer
Calgary, Alberta

OFFICERS

L. G. Evans
President and Chief Executive Officer

B. A. Johnson
Executive Vice President

J. W. Forsyth
Secretary

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company of Canada
Calgary, Alberta

BANKERS

Canadian Imperial Bank of Commerce
Calgary, Alberta

AUDITORS

KPMG Peat Marwick Thorne
Calgary, Alberta

RESERVE ENGINEERS

Martin Petroleum & Associates
Calgary, Alberta

STOCK EXCHANGE
Alberta Stock Exchange
Trading Symbol: **"CYG"**

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1900, 801 SIXTH AVENUE S. W.
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1996 ANNUAL REPORT

FOUNDATION FOR THE FUTURE

COLONY ENERGY LTD.

Foundation For The Future

APRIL 30, 1996 CYG $0.40 APRIL 30, 1996 CYG $0.40 APRIL 30, 1996 CYG $0.40

The eight months ended December 31, 1996 represented a period of reorganization and reorientation for Colony. The following transactions have positioned Colony for significant financial and operational growth in 1997.

- Colony completed a corporate reorganization that resulted in a new capital structure and new management team. Colony raised $1,500,000 through the private placement of 4,000,000 common shares and a $500,000 convertible debenture. Colony used these proceeds in part to retire all of its outstanding $1,025,000 high interest debentures. Larry Evans and Barry Johnson joined Colony as its new President and Executive Vice President, respectively.
- Colony retired all of its outstanding long-term debt by converting its $500,000 debenture in exchange for the issuance of 2,000,000 common shares.
- Colony subsequently raised $1,500,000 through the private placement of 1,875,000 "flow-through" special warrants, with the proceeds used to partially fund its winter drilling program.
- Colony raised a further $2,000,000 through the private placement of 2,857,143 special warrants, with the proceeds used to partially fund its winter drilling program.
- Colony acquired Pamplona Energy Limited in exchange for the issuance of 8,300,000 common shares. Pamplona was a private exploration and production company active in the Rainbow Lake and Hutch areas of northwestern Alberta. Colony has continued with Pamplona's program of drilling prolific light oil horizontal re-entry wells.

MARCH 31, 1997 CYG $1.00 MARCH 31, 1997 CYG $1.00 MARCH 31, 1997 CYG $1.00

Annual Meeting

All shareholders are invited to attend the special and annual meeting of shareholders to be held on Tuesday, May 27, 1997 at 3:00 p.m. in the Lake Louise Room at the Westin Hotel, 320 – 4th Avenue S.W., Calgary, Alberta. Shareholders who are unable to attend are requested to complete and return a form of proxy.

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In June 1996, Colony Energy Ltd. restructured its management team and established new directions and expectations for your company.

Our primary objective in 1996 was to establish a proprietary exploration and development program augmented by timely and significant acquisitions. I am very pleased to report that we have accomplished these goals and Colony now enters 1997 with an exciting portfolio of prospects.

In our central Alberta gas play we have acquired 7,800 net acres of undeveloped land and drilled 5 successful gas wells, of which 3 are currently on or being placed on production. The two other wells established new pools and will not be tied-in until additional offset lands have been acquired. To complement our drilling program, a number of minor acquisitions were completed resulting in 1 mmcf/day of new production net to the company with an additional 1.3 mmcf/day coming on stream immediately following spring break-up.

From left to right: Mitchell Putnam, Larry Evans, Barry Johnson

Our most significant activity in 1996 was the acquisition of Pamplona Energy Limited, which was a private company with oil operations in the Rainbow Lake area of Alberta. The acquisition has given Colony a second core area which is primarily focused on Keg River oil development. This winter, 4 wells were horizontally re-entered and 2 wells were reactivated resulting in the addition of 200 bbls/day of working interest oil production. In addition to our drilling activity, Colony has been successful at Crown lease sales and now has 6,100 net acres of undeveloped land at Rainbow Lake. To complement our high activity level in central Alberta the company is planning an active drilling program for this summer and winter in the Rainbow Lake and Hutch areas.

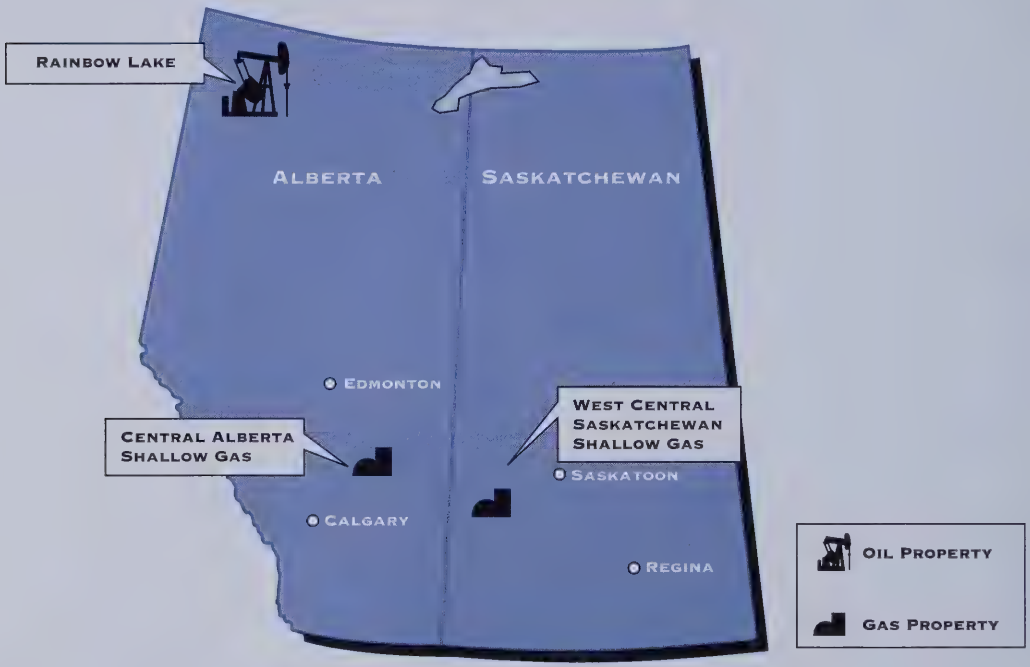
Due to drilling rig shortages, we were unable to drill five of the shallow gas wells scheduled for our winter program. These wells have all year access and have been added to our current drilling program. To ensure the program is completed, Colony has secured a rig committed to drill 25 shallow wells in central Alberta and west central Saskatchewan. Looking ahead to 1997, Colony will continue to build on our strategic advantage in our central Alberta shallow gas and Rainbow oil properties. The addition of Michael Festeryga to our geologic staff further strengthens the company's geologic and engineering experience in our core areas. Based on our current developed prospect portfolio, we can see a minimum of 2 years of relatively low risk drilling opportunities. This bodes extremely well for the company in terms of low cost production and reserve additions.

The management of Colony is focused and aggressively pursuing those opportunities which satisfy our vision of sustainable increases in shareholder value through asset growth and long term profitability. With the support and guidance of our board of Directors and the interest and support of our existing and new shareholders, Colony Energy Ltd. is positioned for significant growth in 1997.

L. Evans

Larry Evans, President and Chief Executive Officer

April 14, 1997



AREAS OF ACTIVITY

Northern Alberta Light Oil Properties

- Colony acquired Pamplona Energy Limited, including its high quality oil projects in the Rainbow Lake area.
- Colony participated in four successful horizontal re-entry projects and the reactivation of two vertical oil producers in the Rainbow Lake area.

Central Alberta Natural Gas Properties

- Colony purchased producing wells, undeveloped acreage, a gas plant interest and related gas gathering infrastructure.
- Colony drilled five wells, identifying four separate accumulations of shallow gas.
- Colony tied-in three shallow gas wells for production and prepared to tie-in two additional wells after spring breakup.

West Central Saskatchewan Natural Gas Properties

- Colony tied-in three gas producers.
- Colony licensed 5 development drilling locations.

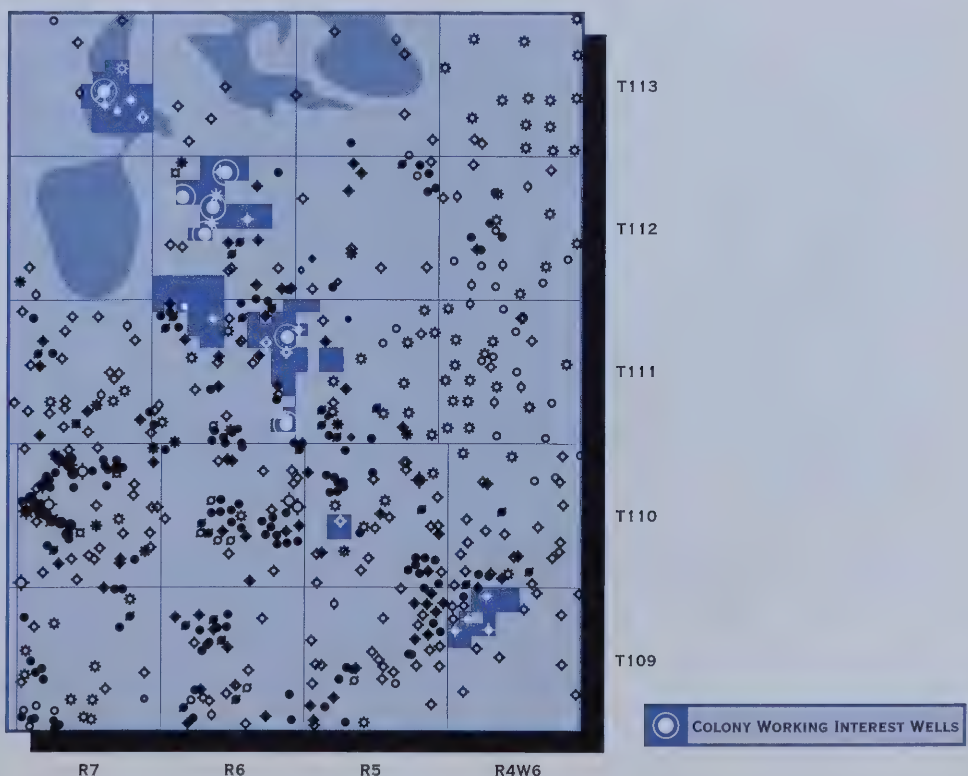
Northern Alberta Light Oil Properties

Rainbow Lake, located 600 km north of Edmonton Alberta, is Colony's largest oil producing property. Colony, through its acquisition of Pamplona Energy Limited in January 1997, has obtained a working interest position in 7 producing oil wells and 14,000 gross acres of undeveloped land. The oil production from this area is from the Keg River formation and is characterized as light (38° API) high quality crude.

Colony (Pamplona) initiated development of this property in February 1996 by re-entering two suspended vertical wells, utilizing horizontal drilling technology to access undrained areas of the reservoir. These wells were placed on production in March 1996 with the use of existing infrastructure. The wells were initially produced at 300 bbls/d and 250 bbls/d. After 12 months of production the wells continue to produce at 240 bbls/d and 140 bbls/d, respectively. Each of these wells paid out within a 9 month period, leaving Colony with a 20% working interest therein.

During the 1996 winter season, Colony participated in an additional 4 well drilling program using horizontal re-entry technology. All wells were successfully completed into the Keg River formation and are currently being production tested into existing flowlines. The company also reactivated two vertical wells as Keg River oil producers. These wells will be considered for horizontal re-entry at a later date. Based on the early results from this project Colony has accelerated its farm-in and acquisition effort within the Rainbow Lake area to obtain additional opportunities for horizontal development.

Rainbow Lake, Alberta



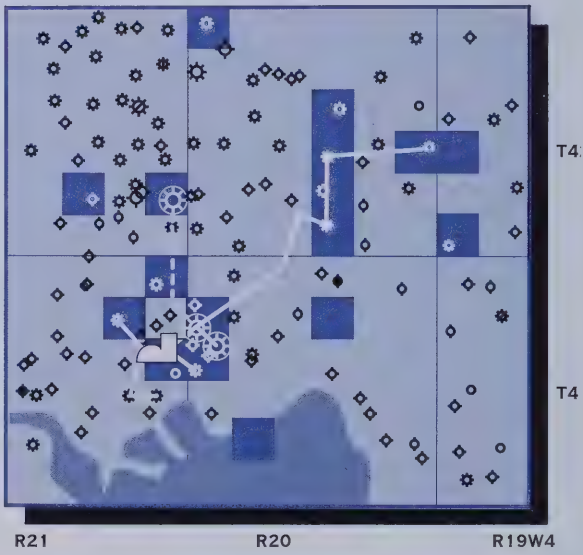
Central Alberta Natural Gas Properties

Colony owns a 100% working interest in natural gas producing properties located in the Endiang, Bashaw, and Erskine areas of Central Alberta. These properties were selected by Colony primarily for the potential of developing reserves of shallow natural gas that were previously bypassed by deeper wells. Additionally, these reserves are readily accessible to existing pipelines and compressor stations and have all season access for development activity. Management's experience with this type of project was developed in a similar area of Alberta over a 15 year period with various other companies and involved approximately 280 gas wells and related infrastructure.

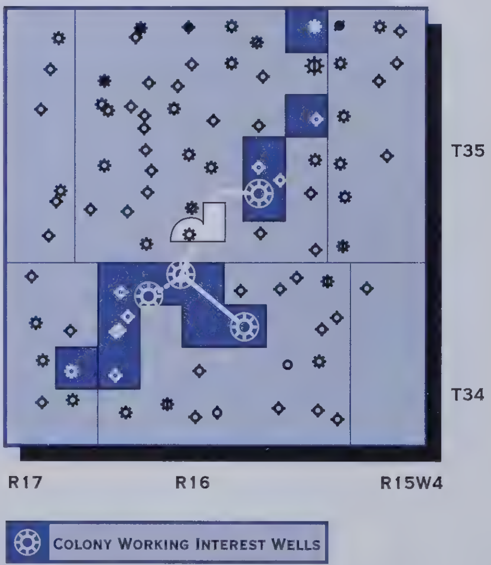
During the eight months ended December 31, 1996, Colony was successful in acquiring working interest positions in a gas plant, related infrastructure and 7,900 gross acres of undeveloped land through property acquisitions and Crown mineral rights offerings. In addition to purchases of producing properties, Colony successfully drilled five gas wells in December 1996 to test four separate anomalies. Production from two of these wells commenced in January and February 1997. Additional drilling and tie-ins will be completed during the spring and summer of 1997.

During 1997, Colony will drill approximately 15, 100% working interest gas wells on existing undeveloped and farm-in acreage.

Bashaw, Alberta



Endiang, Alberta



West Central Saskatchewan

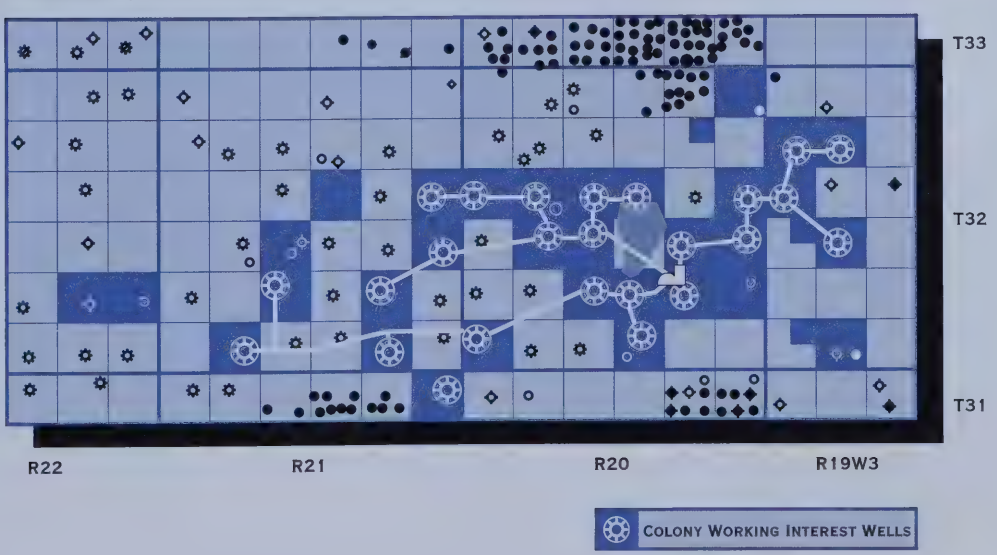
Natural Gas Properties

Colony owns working interests in natural gas producing properties located in the Dodsland, Whiteside, Greenan and Northminster areas of west central Saskatchewan. These properties are characterized by low decline, long life reserves. Within the west central Saskatchewan area, Colony operates three compressor stations, one refrigeration plant for recovery of natural gas liquids and 37 natural gas wells. All wells and infrastructure within this area are operated by Colony and its working interests vary from 50% to 80%. Colony's average working interest based on production volume is 58%. During the eight months ending December 31, 1996, Colony's average production rate was 1,680 mcf/d of natural gas and 26 bbls/d of crude oil and natural gas liquids. This represents a 3% increase from a similar period in 1995. During the eight month period, Colony participated in the acquisition and tie-in of one well in the Dodsland field.

In early 1997, Colony tied-in two gas wells in the Northminster area. Later in the year, Colony intends to drill and tie-in five gas wells in the Dodsland and Whiteside areas.

Colony will continue to review potential production enhancements by downspacing and infill drilling on existing acreage, and the divestiture of non-core assets within this region.

Dodsland, Saskatchewan



Since taking office in June 1996, Colony's new management team has more than doubled the Company's reserves, with the largest growth resulting from successful shallow gas drilling in central Alberta.

Total proved plus probable reserves increased from 959 mboe to 2,200 mboe over the eight month financial period, while the present value of such reserves (escalated pricing discounted at 15%) correspondingly increased from $4,269,000 to $9,624,000. Colony acquired Pamplona Energy Limited in January 1997, which added an additional 1,060 mboe of total proved plus probable reserves and $7,867,000 of present value (escalated pricing discounted at 15%).

Martin Petroleum & Associates of Calgary, Alberta, a firm of independent petroleum engineering consultants ("Martin"), has prepared a report dated February 20, 1997 that evaluates Colony's interests in its oil and natural gas properties effective January 1, 1997 (the "Martin Report"). Paddock Lindstrom & Associates Ltd. of Calgary, Alberta, a firm of independent petroleum engineering consultants ("Paddock"), has prepared a report dated March 3, 1997 that evaluates Pamplona's interests in its oil and natural gas properties effective January 1, 1997 (the "Paddock Report"). Both the Martin Report and Paddock Report applied escalating price and cost assumptions derived in part from Martin's January 1, 1997 price forecasts to estimate reserves of crude oil, natural gas liquids and natural gas and the present value of future cash flows before income tax to be derived therefrom on both an undiscounted and discounted basis. Martin's January 1, 1997 price forecasts are as follows:

Year	Inflation (%)	Exchange Rate (Cdn.$/U.S.$)	WTI Crude Oil at Cushing, Oklahoma (U.S.$/bbl)	Light, Sweet Crude Oil at Edmonton City Gate (Cdn.$/bbl)	Alberta Par Price (Cdn.$/mmbtu)
1997	2.0	0.740	21.00	27.40	1.60
1998	2.0	0.740	21.00	27.40	1.80
1999	2.0	0.740	21.00	27.40	2.00
2000	2.0	0.740	21.50	28.00	2.20
2001	2.0	0.740	22.25	29.00	2.35
2002	2.0	0.740	23.00	30.00	2.50
2003	2.0	0.740	23.75	31.00	2.60
2004	2.0	0.740	24.50	32.00	2.75
2005	2.0	0.740	25.25	33.00	2.90
2006	2.0	0.740	26.00	34.00	2.95
2006 +	2.0	0.740	+ 3.5% / year	+ 3.5% / year	+ 3.5% / year

The following tables summarize the evaluation of the Company's and Pamplona's reserves prior to a provision for income taxes. The cash flow values summarized in the following tables do not necessarily represent the fair market value of the Company's and Pamplona's reserves.

PETROLEUM AND NATURAL GAS RESERVES AS AT JANUARY 1, 1997
(BASED ON ESCALATING PRICE AND COST ASSUMPTIONS)

	Crude Oil & NGLs (mbbls)		Natural Gas (mmcf)	
	Gross	Net	Gross	Net
Proved Producing	352	320	7,830	6,671
Proved Non-Producing	3	3	6,622	5,428
Proved Undeveloped	150	114	15	12
Total Proved	505	437	14,467	12,111
Probable Reserves	757	648	5,515	4,830
Total Proved Plus Probable Reserves	1,262	1,085	19,982	16,941

PRESENT VALUE OF ESTIMATED FUTURE NET CASH FLOWS (BEFORE INCOME TAXES) AS AT JANUARY 1, 1997 (BASED ON ESCALATING PRICE AND COST ASSUMPTIONS)

	Present Value of Future Net Cash Flows Discounted at (000)			
	0%	10%	15%	20%
Proved Producing	$ 13,239	$ 7,770	$ 6,523	$ 5,664
Proved Non-Producing	7,541	3,553	2,618	1,980
Proved Undeveloped	1,763	1,238	1,059	917
Total Proved	22,543	12,561	10,200	8,561
Probable Reserves	14,314	8,981	7,291	6,002
Total Proved Plus Probable Reserves	$ 36,857	$ 21,542	$ 17,491	$ 14,563

The following discussion and analysis is management's assessment of Colony's historical financial and operating results and should be read in conjunction with the audited comparative financial statements of the Company for the eight months ended December 31, 1996, together with the notes related thereto.

The eight month period ended December 31, 1996 marked a period of transition for the Company as a new management team recapitalized the Company, increased its property base and stepped up its drilling activity. The shortened fiscal period resulted from Colony's change in financial year end from April 30 to December 31, effective December 31, 1996.

RESULTS OF OPERATIONS

Gas Sales

Colony's principal commodity of production is natural gas, which accounted for 90% of the Company's total production for the eight months ended December 31, 1996. On an annualized basis, gas sales rose by 17%, due in part to an increase in average daily production from 2,120 mcf/d to 2,290 mcf/d and an increase in average sales price from $1.15/mcf to $1.26/mcf. Colony expects gas sales to increase in 1997 due to increased production from existing and newly drilled properties.

Oil and By-Product Sales

Oil and NGLs accounted for only 10% of the Company's total production during the eight months ended December 31, 1996. Colony expects oil sales to form a significantly larger portion of its total commodity sales in 1997 as a result of the Company's acquisition of Pamplona Energy Limited in January 1997. Pamplona's oil production for the year ended December 31, 1996 averaged 189 bbls/d.

Royalties

Royalties remained relatively constant during the eight months ended December 31, 1996 at an average rate of 15% of gross sales. Colony expects royalties as a percentage of sales to increase in 1997 due to a greater percentage of oil production that attracts higher royalty rates. A portion of this increase will be offset by related Alberta Royalty Tax Credit.

Operating Costs

Operating costs decreased during the eight months ended December 31, 1996. However, on a per unit of production basis, operating costs increased from $6.74 per boe for the year ended April 30, 1996 to $7.03 per boe for the eight month period. This increase was largely attributable to a compressor overhaul at Colinton during the period and higher processing fees. These processing fees have been reduced in 1997. Colony expects per unit of production operating costs to decrease in 1997 as a result of the oil production and as existing properties are optimized.

General and Administrative Expense

General and administrative expense decreased during the eight month period on both an absolute and per unit of production basis. General and administrative expenses were abnormally high during the year ended April 30, 1996 as they included a one time cost of reorganization. Colony did not capitalize any general and administrative expense during either of the two reported periods. Colony expects per unit of production general and administrative expense to decrease in 1997 with expected gains in production.

Interest Expense

Interest expense decreased during the eight months ended December 31, 1996, primarily due to lower principal amounts outstanding and lower interest rates than those experienced during the year ended April 30, 1996. During the eight month period, Colony retired $1,025,000 of 15% debentures and issued a $500,000 convertible debenture. In December 1996, this latter debenture was converted into 2,000,000 common shares. As a result, Colony had no long-term debt at the end of the year.

Depletion and Depreciation

Depletion and depreciation was down significantly for the eight months ended December 31, 1996, primarily as a result of the addition of new reserves that reduced the depletion rate from that applicable to the year ended April 30, 1996.

Write-Down of Capital Assets

Under the full cost method of accounting, Colony is required to apply a ceiling test to ensure that capitalized costs do not exceed the estimated future net revenues from the production of proved reserves. No ceiling test write-down was required in respect of the eight months ended December 31, 1996. Colony experienced a ceiling test write-down of $885,000 in respect of the year ended April 30, 1996.

Taxes

Colony has paid no taxes during either of the two most recently completed financial periods. At December 31, 1996, Colony had resource related deductions of approximately $12,700,000, non-capital loss carry forwards of approximately $895,000 and net capital losses of $500,000. As a result, Colony does not expect to be taxable in the near future. The potential tax benefits related to these excess deductions and losses have not been reflected in the Company's financial statements.

Net Earnings and Funds From Operations

Colony experienced losses in each of its two most recently completed financial periods, although the loss experienced in the eight month period was significantly reduced from that experienced in the year ended April 30, 1996. Colony returned its funds from operations to a positive balance during the eight month period. Colony expects funds from operations to increase significantly in 1997 due to an expected significant increase in production resulting from the Company's prior acquisitions and drilling programs.

CAPITAL EXPENDITURES AND CAPITAL RESOURCES

Colony significantly increased its capital expenditures from $198,000 in the year ended April 30, 1996 to $1,693,000 in the eight months ended December 31, 1996. Capital expenditures in the eight month period included expenditures of approximately $846,000 on drilling, $643,000 on property and land acquisitions, and $184,000 on plant and equipment. A majority of these expenditures were incurred late in the year and were financed with working capital, including debt that was retired prior to year end.

Colony expects to significantly increase its capital expenditures again in 1997. To that end, Colony acquired all of the shares of Pamplona Energy Limited in January 1997 in exchange for the issuance of a total of 8,300,000 common shares and special warrants. In December 1996 and January 1997, Colony raised gross proceeds of $3,500,000 pursuant to the issuance of a total of 4,732,143 special warrants. The net proceeds are being used to partially fund the Company's 1997 winter drilling program.

LIQUIDITY

Colony had positive working capital of $469,597 at December 31, 1996. Colony funds its operations primarily through the reinvestment of the Company's funds from operations, equity financing and long-term debt.

Funds From Operations

Colony generated funds from operations of $16,104 during the eight months ended December 31, 1996. While funds from operations was not a major source of funds during this period, it is expected to form a larger portion of the Company's funds in the future.

Equity Issues

Colony issued a total of 6,230,000 common shares during the eight months ended December 31, 1996, 4,000,000 of which were issued for cash consideration of $0.25 per share pursuant to a private placement effected in June 1996 and a further 2,000,000 of which were issued upon the conversion of a $500,000 debenture in December 1996. The remaining 230,000 common shares were issued either in exchange for services or upon the exercise of stock options.

Colony had 9,389,488 common shares outstanding as at December 31, 1996 and, based on the December 31, 1996 closing price of $0.80 per share, a market capitalization of approximately $7,500,000.

Colony issued 8,094,984 common shares and 205,016 special warrants on January 20-22, 1997 in exchange for all of the issued and outstanding shares of Pamplona Energy Limited. Colony also issued 1,875,000 flow-through special warrants at $0.80 per warrant and 2,857,143 straight special warrants at $0.70 per warrant in December 1996 and January 1997, respectively. Each of the special warrants are exchangeable without additional consideration for one common share. Upon the exchange of all of the special warrants, Colony will have 22,421,631 common shares issued and outstanding.

Colony intends to continue to use equity as a source of funds for material acquisitions and drilling programs.

Long-Term Debt

At the beginning of the eight months ended December 31, 1996, Colony had outstanding $1,025,000 of debentures that bore interest at 15%. Colony used the proceeds of its June 1996 private placement of common shares and its concurrent issuance of a $500,000 convertible debenture in part to retire all of the 15% debentures. The $500,000 debenture was converted in December 1996, resulting in the issuance of 2,000,000 common shares.

In February 1997, Colony established a $1,000,000 operating credit facility with a Canadian chartered bank. Amounts outstanding under the facility are repayable on demand and bear interest at the bank's prime rate plus 1.25%. Colony is currently drawing funds from the facility to partially fund its winter drilling program.

Colony believes that properly managed, the use of debt can provide for growth without dilution to shareholders. Colony will consider the use of debt to finance a portion of its operations once funds from operations is sufficient to support related interest payments.

Outlook

The acquisition of Pamplona Energy Limited and a significantly increased capital expenditure program will dramatically alter the Company's financial results in 1997. Pamplona's light oil focus will provide the Company with a more balanced production profile and will make the Company's revenue stream much less dependent on the often volatile market price of natural gas. Significant drilling in the year is expected to produce an expanded reserve base and further increase production. The combination of increased production and expected continued strength in commodity prices should enable Colony to produce significantly greater funds from operations in 1997.

Management's Responsibility for Financial Statements

The financial statements of Colony Energy Ltd. were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this annual report is consistent with the financial statements.

Management has designed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of financial statements for reporting purposes. Timely release of the financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. Such estimates are based on careful judgements made by management.

External auditors appointed by the shareholders have conducted an independent examination of the corporate and accounting records in order to express their opinion on the financial statements. The Audit Committee of the Board of Directors has reviewed the financial statements, including the notes thereto, with management and KPMG. The financial statements have been approved by the Board of Directors on the recommendation of the audit committee.

L Evans

Larry Evans, President and Chief Executive Officer

March 14, 1997

Barry A. Johnson, Executive Vice President

Auditors' Report

We have audited the balance sheets of Colony Energy Ltd. as at December 31, 1996 and April 30, 1996 and the statements of operations and deficit and changes in financial position for the eight month period ended December 31, 1996 and the year ended April 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and April 30, 1996 and the results of its operations and the changes in its financial position for the eight month period ended December 31, 1996 and the year ended April 30, 1996 in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada

March 14, 1997

BALANCE SHEETS

	December 31, 1996	April 30, 1996
ASSETS		
Current assets:		
Cash and short term deposits	$ 1,201,298	$ 316,797
Accounts receivable	246,808	470,791
Prepaid expenses	54,623	52,548
	1,502,729	840,136
Capital assets (note 2)	2,708,760	1,174,147
	$ 4,211,489	$ 2,014,283
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,033,132	$ 693,156
Long-term debt (note 3)	–	1,025,000
Provision for site restoration and abandonment	80,320	50,000
	1,113,452	1,768,156
Shareholders' Equity:		
Share capital (note 4)	3,224,011	12,836,458
Deficit	(125,974)	(12,590,331)
	3,098,037	246,127
Subsequent events (note 7)		
	$ 4,211,489	$ 2,014,283

See accompanying notes to financial statements.

On behalf of the Board:

J. Evans

Director

Director

STATEMENTS OF OPERATIONS AND DEFICIT

	Eight Months Ended December 31, 1996	Year Ended April 30, 1996
Natural gas and petroleum operations:		
Gas	$ 697,145	$ 886,325
Oil and by-products	138,931	177,150
Processing and other	17,589	73,457
Royalties	(117,377)	(162,405)
	736,288	974,527
Expenses:		
Operating costs	438,636	595,223
General and administrative	190,012	634,925
Interest on long-term debt	87,943	64,063
Other interest and banking charges	3,593	42,713
Depletion and depreciation	111,758	266,208
Future site restoration and abandonment	30,320	15,000
Write-down of capital assets	–	885,000
	862,262	2,503,132
Gain on sale of mining assets	–	50,001
Loss for the period	125,974	1,478,604
Deficit, beginning of period	12,590,331	11,111,727
Elimination of deficit against share capital (note 4(d))	(12,590,331)	–
Deficit, end of period	$ 125,974	$ 12,590,331
Loss per share	$ 0.02	$ 0.47

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Eight Months Ended December 31, 1996	Year Ended April 30, 1996
Cash provided by (used in):		
Operations:		
Loss for the period	$ (125,974)	$ (1,478,604)
Items not affecting working capital:		
Depletion and depreciation	111,758	266,208
Future site restoration and abandonment	30,320	15,000
Write-down of capital assets	–	885,000
Gain on sale of mining assets	–	(50,001)
Net changes in non-cash working capital	561,884	240,267
	577,988	(122,130)
Financing:		
Increase (decrease) in long-term debt	(1,025,000)	1,025,000
Issue of common shares and special warrants	2,977,884	–
	1,952,884	1,025,000
Investments:		
Purchase of capital assets	(1,693,092)	(198,121)
Proceeds on disposal of capital assets	46,721	300,000
	(1,646,371)	101,879
Increase in cash position	884,501	1,004,749
Cash (bank indebtedness), beginning of period	316,797	(687,952)
Cash, end of period	$ 1,201,298	$ 316,797

See accompanying notes to financial statements.

Eight months ended December 31, 1996 and year ended April 30, 1996

General:

The Company was incorporated under the laws of British Columbia, was continued in Alberta under the Business Corporations Act (Alberta) and carries on exploration and development of natural gas and petroleum properties. The Company's wholly owned inactive subsidiary, Sevex Texas Inc. was wound up in 1995.

1. Significant accounting policies:

(a) Natural gas and petroleum properties:

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include land acquisition, geological and geophysical, carrying charges on non-producing properties, and drilling both productive and non-productive wells.

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are depleted using the unit-of-production method based upon estimated proved reserves before royalties as calculated by independent reservoir engineers. Reserves are converted to equivalent units on the basis of approximate relative energy content. Costs of acquiring and evaluating unproven properties are initially excluded from the depletion calculation. These properties are periodically assessed to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

In applying the full cost method, the total capitalized costs less accumulated depletion, depreciation, deferred income taxes and provision for future site restoration costs are limited to an amount equal to the estimated future net revenue from proven reserves plus the cost (net of impairments) of unproven properties less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would alter the rate of depletion and depreciation by 20% or more.

(b) Equipment:

Equipment is recorded at cost. Depreciation is provided over the equipment's estimated useful life on the declining-balance basis at rates of 10% - 30% per annum.

(c) Future site restoration costs:

The amounts recorded for depletion and depreciation of petroleum and natural gas properties as well as the provision for future site restoration costs are based on estimates of proved reserves and future costs. The recoverable value of natural gas and petroleum properties is based on a number of factors including the estimated proved reserves, oil and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements in future periods could be material.

(d) Joint ventures:

Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

(e) Flow-through shares:

Under the terms of flow-through share issues, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of properties acquired and the shares issued are recorded net of the tax benefits renounced to subscribers.

2. Capital assets:

	December 31, 1996	April 30, 1996
Natural gas and petroleum properties	**$ 8,877,177**	$ 7,251,801
Equipment	**70,208**	49,212
	8,947,385	7,301,013
Accumulated depletion and depreciation	**6,238,625**	6,126,866
	$ 2,708,760	$ 1,174,147

For the year ended April 30, 1996, the Company recorded a write-down of $885,000. The year-end prices which were used in the ceiling test determination were $1.16/mcf and $21.90/bbl. The ceiling test is a cost recovery test and is not intended to result in an estimate of the fair market value of the natural gas and petroleum properties.

3. Long-term debt:

During the period, the Company repaid the debentures of $1,025,000 which had an interest rate of 15% per annum payable semi annually. Directors, their families and companies controlled by directors were repaid for the $610,000 debentures they held. During the year ended April 30, 1996, interest of $38,124 was paid on the debentures to directors, their families and companies controlled by directors.

In February 1997, the Company secured a $1,000,000 demand revolving operating facility which bears interest at the bank's prime lending rate plus 1.25%. The facility is secured by a floating charge debenture on all of the assets of the Company.

4. Share capital:

(a) Authorized:

100,000,000 common shares without par value.

(b) Issued:

At the Annual General Meeting in October 1995, a resolution was passed whereby the Company's common shares were consolidated on an 8 for 1 basis. The prior year's share and per share information has been restated to reflect the share consolidation.

	Shares	Amount
Balance, April 30, 1995 and 1996	3,159,488	$ 12,836,458
Issued pursuant to exercise of stock options	200,000	68,000
Issued pursuant to a private placement (i)	4,000,000	1,000,000
Issued for services	30,000	12,000
Issued on conversion of debenture (i)	2,000,000	500,000
Reduction of deficit at April 30, 1996 (note 4(d))	–	(12,590,331)
Balance December 31, 1996	9,389,488	$ 1,826,127
Flow-through special warrants (ii)	–	$ 1,500,000
Special warrants issue costs	–	(102,116)
Balance, December 31, 1996	–	$ 1,397,884

(i) During the eight month period ended December 31, 1996, as part of an overall corporate reorganization, the Company completed a private placement of 4,000,000 common shares at a price of $0.25 per common share for proceeds of $1,000,000 and issued a $500,000 convertible debenture, convertible at the option of the holder, at a conversion price of $0.25 per common share. On December 6, 1996, the debenture was converted into common shares.

(ii) Flow-through Special Warrants

On December 23, 1996, the Company closed the first half of a private placement issuing 1,875,000 flow-through special warrants at $0.80 per warrant for proceeds of $1,500,000. The warrants are convertible to common shares on a one for one basis. The terms of the flow-through special warrants provide that the Company will renounce the tax deductions on or before March 1, 1998. Subsequent to December 31, 1996 the Company renounced all of the above-noted expenditures.

(iii) Straight Special Warrants

On January 15, 1997, the Company completed a special warrant financing which resulted in the issuance of 2,857,143 straight special warrants, at $0.70 per straight special warrant for total proceeds of $2,000,000. Each straight special warrant is convertible to common shares on a one for one basis.

(c) Options:

At April 30, 1996, 257,438 common shares were reserved pursuant to options outstanding at exercise prices varying from $0.34 to $2.80 per share. During the period ended December 31, 1996 180,000 of these options were exercised at $0.34 per share and the balance have been cancelled due to termination of the option plan.

On June 25, 1996 the Company adopted an incentive stock option plan which was confirmed by the shareholders on October 1, 1996. Pursuant to this plan, the Company has reserved 415,000 shares at December 31, 1996 for options at exercise prices varying from $0.34 to $0.65 expiring at various dates from February 2001 to October 2001. Subsequent to December 31, 1996 the Company reserved an additional 695,000 shares for options at an exercise price of $1.26 and expiring February 2002.

(d) Reduction of stated capital:

On October 1, 1996, the Company's shareholders approved the reduction from capital stock of the deficit of the Company at April 30, 1996 of $12,590,331.

5. Income Taxes:

The provision for income and other taxes in the statements of operations and deficit reflects an effective rate which differs from the expected combined federal and provincial income tax rate. These differences are accounted for as follows:

	December 31, 1996	April 30, 1996
Expected combined federal and provincial taxes of 45%	$ (56,688)	$ (665,372)
Increase (decrease) in taxes resulting from:		
Crown royalties	37,342	52,963
Alberta Royalty Tax Credit	(5,049)	(19,596)
Resource allowance	(18,605)	-
Losses, the benefit of which have not been recognized	43,000	632,005
	$ –	$ –

The Company has available resource related deductions and net capital losses which may be carried forward indefinitely and used in the prescribed manner to reduce taxable income in future years. At December 31, 1996, resource related deductions were approximately $12,700,000. Net capital losses carried forward were approximately $500,000. No future tax benefit has been recognized in the accounts in respect of these items.

The Company has non-capital loss carry forwards for tax purposes which are available to reduce taxable income and expire as follows:

1998	$	200,000
2000		170,000
2001		230,000
2003		295,000
	$	895,000

6. Related party transactions:

For the eight months ended December 31, 1996, $380,230 (year ended April 30, 1996 - $170,000) was paid as consulting fees to directors of the Company.

7. Subsequent events:

(i) On November 26, 1996, the Company entered into a letter of intent with Pamplona Energy Limited ("Pamplona"), a private Alberta company, relating to the acquisition by the Company of all of the issued and outstanding shares of Pamplona by the Company in exchange for the issuance of 8,094,984 common shares and 205,016 acquisition special warrants of the Company at an ascribed value of $0.70 per share and $0.70 per acquisition special warrant. The acquisition closed in January 1997.

The transaction will be accounted for by the purchase method. Based upon Pamplona's December 31, 1996 audited financial statements the accounting for, and allocation of, the consideration of common shares and acquisition special warrants given for the transaction is as follows:

Common shares and acquisition special warrants of Colony	$	5,810,000
Fair value of net assets of Pamplona at December 31, 1996, consisting of:		
Cash and short term deposits	$	581,920
Accounts receivable		429,463
Prepaid expenses and deposits		4,392
Capital assets, net		6,388,671
Accounts payable and accrued liabilities		(1,573,246)
Provision for site restoration and abandonment		(21,200)
Fair value of net assets acquired	$	5,810,000

(ii) In March 1997, the Company filed a preliminary prospectus to qualify for distribution the 1,875,000 flow-through special warrants, the 2,857,143 straight special warrants and the 205,016 acquisition special warrants.

Colony Energy Ltd. purchased all of the issued and outstanding shares of Pamplona Energy Limited in January 1997. The following tables provide financial and operational highlights for each of Colony for the eight months ended December 31, 1996 and Pamplona for the year ended December 31, 1996.

	Colony Energy Eight Months Ended December 31, 1996	Pamplona Energy Year Ended December 31, 1996
FINANCIAL ($, except for common shares outstanding)		
Total revenues, net of royalties	736,288	1,713,127
Funds from operations	16,104	938,837
Basic per share	0.00	0.49
Fully diluted per share	0.00	0.29
Net income (loss)	(125,974)	219,518
Basic per share	(0.02)	0.11
Fully diluted per share	(0.02)	0.07
Net present value of reserves (before tax @ 15%)	9,624,000	7,867,000
Net present value of reserves (before tax @ 10%)	12,354,000	9,188,000
Long-term debt	–	–
Shareholders' equity	3,098,037	2,665,826
Capital expenditures	1,693,092	2,089,030
Common shares outstanding	9,389,488	3,216,774
OPERATIONAL		
Average daily production (boe)	255	191
Crude oil and NGLs		
Average daily production (bbl)	26	189
Average sales price (per bbl)	$ 23.19	$ 28.13
Natural gas		
Average daily production (mcf)	2,290	20
Average sales price (per mcf)	$ 1.26	$ 1.23
Proved plus probable reserves		
Crude oil and NGLs (mbbls)	212	1,050
Natural gas (mmcf)	1,988	98
Total (mboe)	2,200	1,060
Undeveloped lands		
Gross (acres)	25,916	33,920
Net (acres)	17,264	16,164

Corporate Information

Directors

Gordon W. Cameron
Chief Executive Officer, Scotcam Enterprises Ltd.

Larry G. Evans
President and Chief Executive Officer

Barry A. Johnson
Executive Vice President

Victor Roskey
Griffiths McBurney & Partners

Larry A. Shaw
President, Shaw GMC Pontiac Buick Ltd.

Officers

Larry G. Evans
President and Chief Executive Officer

Barry A. Johnson
Executive Vice President

Mitchell L. Putnam
Vice President, Exploration

Jody W. Forsyth
Corporate Secretary

Auditors

KPMG
Calgary, Alberta

Legal Counsel

MacKimmie Matthews
Calgary, Alberta

Bankers

Canadian Imperial Bank of Commerce
Calgary, Alberta

Engineering Consultants

Martin Petroleum & Associates
Calgary, Alberta

Paddock Lindstrom & Associates Ltd.
Calgary, Alberta

Registrar & Transfer Agent

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Calgary, Alberta

Stock Exchange

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